

Final Internal Audit Report

HMO Licensing 2023/24

September 2023

Distribution: Corporate Director, Sustainable Communities, Regeneration & Economic Recovery
Director of Streets and Environment
Head of Environmental Health, Trading Standards and Licensing
Private Sector Housing Team Manager
Corporate Director of Resources and S151 Officer (Final only)
Director of Finance (Deputy S151)

| Assurance Level | Issues Identified | |
|-------------------|-------------------|---|
| Limited Assurance | Priority 1 | 2 |
| | Priority 2 | 1 |
| | Priority 3 | 0 |

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations, and confidentiality.

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1. Introduction

- 1.1 A House in Multiple Occupation (HMO) is a residential property rented by 3 or more individuals who are not from the same “household” (e.g. a family or couple). HMOs are popular with young people and students, and large numbers can be found in university areas, and major urban areas. HMOs are particularly common in Greater London, which is home to around 30% of all HMOs in England.
- 1.2 HMOs are often considered to be at a particularly high risk of substandard conditions, due to their popularity with groups that have limited financial resources, such as students and young people.
- 1.3 Under the Housing Act 2004, HMOs rented by more than 5 people who share a bathroom, toilet or kitchen are required to be licensed by the Local Authority. The purpose of the licensing regime is to ensure that these properties meet minimum safety standards. The London Borough of Croydon will usually expect the following criteria to be met for an HMO licence to be issued:
 - HMO is reasonably suitable for occupation by the number of people expected;
 - proposed licence holder is a 'fit and proper person';
 - proposed manager, if there is one, is a 'fit and proper person';
 - proposed management arrangements are satisfactory;
 - HMO manager is competent;
 - financial structures for the management are suitable.
- 1.4 In order to assess an application for an HMO Licence, the Council will carry out site inspections, and review essential documents provided by the landlord of the property. Landlords pay a fee to apply to for an HMO Licence.
- 1.5 In addition to issuing HMO Licences, the Council also has a responsibility to identify HMOs operating unlawfully within the Borough. Under the Housing Act 2004, it is an offence to operate a licensable HMO without a valid licence.
- 1.6 This audit is part of the agreed Internal Audit Plan for 2023/24.

2. Key Issues

Priority 1 Issues

Upon application for an HMO license, inspection notes are expected to be completed as part of the assessment of the application, however, inspection notes were not provided for nine out of ten sample licenses. **(Issue 1)**

According to the Council’s Application Form for HMO Licenses, under section 15, all applicants must provide an up-to-date Fire Risk Assessment (FRA) and Gas Safety Certificate as part of their application. However, testing of a sample of ten licenses found

that three did not have up to date fire risk assessments and one did not have a valid gas safety certificate stored on file. **(Issue 2)**

Priority 2 Issues

The Council did not maintain a report of all properties that required remedial action/s. **(Issue 3)**

3. Actions and Key Findings/Rationale

Audit Area: Inspection and Site Visits

| Priority | Action Proposed by Management | Detailed Finding/Rationale - Issue 1 |
|----------|---|---|
| 1 | <p>A review of the cases found that:</p> <p>Cases where inspection notes were available – 5</p> <p>Cases where an inspection occurred and the notes were put on post uniform – 2</p> <p>Cases where and inspection occurred and there were not notes – 2</p> <p>Case where the inspection was cancelled - 1</p> <p>Improvements proposed:</p> <p>A licensing inspection form is to be used for all inspections. Separate forms will exist for broadly compliant properties and one for new HMOs or non-compliant properties. This form can record repair, room size, safety, management and amenity issues. The form is to be completed by hand and scanned to the HMO SharePoint folder.</p> | <p>Expected Control</p> <p>The Council should complete an inspection for each HMO being licenced and maintain inspection forms/notes on the SharePoint system upon completion of any inspections.</p> <p>Finding/Issue</p> <p>The Private Sector Housing Manager explained that all HMOs require an inspection prior to the granting of an HMO License. Also, it was noted that the Council's inspection officers rarely complete inspection forms, instead using inspection notes. Review of the Licensing Procedure (dated 10 November 2022), noted that under section 4.4 and 4.5, an Environmental Health Officer (EHO) is required to contact the applicant and arrange an appointment for an inspection. Once the inspection has been complete, the EHO will decide the licensing conditions.</p> <p>Examination of the documentation maintained for a random sample of ten HMO License's granted, selected from report of all HMO Licenses granted from 5 April 2022 to 4 March 2023, found that only one of these (1063A London Road) had an inspection form completed and maintained on the Council's SharePoint system. For the other nine HMO Licenses sampled, evidence of an inspection form/note being completed was not evident.</p> <p>Risk</p> <p>Where inspection notes/forms are not completed and retained, the Council may be in breach of its duties laid out under chapter 34 of the Housing Act 2004, subsection (5)(c). It may also lead to people being housed in unsuitable properties.</p> |

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| Responsible Officer | Deadline | |
|--------------------------------|-------------------------------|--|
| Private Sector Housing Manager | 1 st November 2023 | |

Audit Area: Safety Certificates (including Gas and Electric)

| Priority | Action Proposed by Management | Detailed Finding/Rationale - Issue 2 |
|----------|---|--|
| 1 | <p>A review of the cases found that:</p> <p>Number of properties where a fire risk assessment was not collected – 2</p> <p>Number of properties that were empty at the point of application and fire risk assessment requested on occupation – 1</p> <p>The one property without a gas safety certificate did not have gas in the property.</p> <p>Improvements proposed:</p> <p>When licence applications are received a checklist form will be set up in the electronic folder for completion by officers at different stages of the process. This will indicate what certificates; have been received prior to an application, are being chased and which must be chased through the licensing conditions on issue of a licence. The checklist will ideally be completed electronically and then it is visible at all times.</p> | <p>Expected Control</p> <p>Fire Risk Assessments (FRA's) and valid gas certificates should be obtained as part of the HMO application process, with copies of these being retained on the SharePoint system.</p> <p>The use of a checklist for each HMO license application, helps to ensure that licences are not issued without a valid FRA or gas certificate.</p> <p>Finding/Issue</p> <p>Discussion with the Private Sector Housing Manager noted that FRA certificates and gas certificates must be provided by the applicant as part of the application process. Examination of the application form used confirmed that this (under part 15) requires that a valid FRA and a gas certificate must be provided as part of the initial application.</p> <p>Testing of a sample of ten HMO Licenses (from a report of all HMO Licenses granted from 5 April 2022 to 4 March 2023), confirmed that:</p> <ul style="list-style-type: none"> - For seven of these an up-to-date FRA certificate had been provided and retained in SharePoint as part of the application process. However, for three of the sample (50 Melfort Road, 97 Melfort Road, 488 Davidson Road), no evidence of an FRA had been retained. - For nine of these an up-to-date gas certificate had been provided, which had been retained SharePoint as part of the application process. However, for one case in the sample (50 Melfort Road), no Gas Certificate had been saved in SharePoint. <p>Risk</p> <p>Where FRA's are not provided as part of the application process, the Council may be in breach of its own Licensing Procedure under section 4.1, as well as in breach of the Housing Act 2004. This could lead to the issuing of HMO Licenses to HMO's that have fire safety hazards, which could result in reputational damage, and the risk of legal action against the Council in the event of a fire in an HMO where the licensing procedure was not properly followed. The Council may</p> |

| | | |
|--------------------------------|-------------------------------|--|
| | | also risk approving HMO licenses where the management of fire risks are not completely assured. |
| Responsible Officer | Deadline | Where Gas Certificates are not provided as part of the application process, the Council may be in breach of its own Licensing Procedure under section 4.1. This could lead to the issuing of HMO Licenses to HMO's that have gas safety hazards. |
| Private Sector Housing Manager | 1 st November 2023 | Without a proper record, there is an increased risk to the safety of people being housed in these properties where health and safety checks may not have been performed. |

Audit Area: Inspection and Site Visits

| Priority | Action Proposed by Management | Detailed Finding/Rationale - Issue 3 | | | | |
|--|--|--|----------|--------------------------------|-------------------------------|--|
| 2 | Some additional codes have been used in Uniform to record the HMO inspection and hazards found. Some consideration can be given to cases where the repairs required are listed in an email to allow reporting. There should be a file note to indicate that the works have been completed for audit and safety purposes. This can be checked at the case review stage. | <p>Expected Control</p> <p>Where remedial works are required, the Council should communicate with the owner and keep a record this communication in the Uniform system so that this can be appropriately monitored.</p> <p>Finding/Issue</p> <p>Discussion with management confirmed that where remedial actions are required following an inspection, the Council will either email the owner of the property and inform them that remedial works are required or produce a draft schedule and forward this to the owner. Once this task has been completed, the Council will retain this information on Uniform.</p> <p>However, management were unable to provide a report of the properties that required remedial actions.</p> <p>The lack of this report also prevented any sample testing being completed to confirm that actions had been taken.</p> | | | | |
| <table border="1"> <thead> <tr> <th data-bbox="192 839 490 903">Responsible Officer</th> <th data-bbox="490 839 792 903">Deadline</th> </tr> </thead> <tbody> <tr> <td data-bbox="192 903 490 1002">Private Sector Housing Manager</td> <td data-bbox="490 903 792 1002">1st November 2023</td> </tr> </tbody> </table> | | Responsible Officer | Deadline | Private Sector Housing Manager | 1 st November 2023 | <p>Risk</p> <p>Where remedial works are not monitored, there is a risk that these will not be completed in a timely manner.</p> |
| Responsible Officer | Deadline | | | | | |
| Private Sector Housing Manager | 1 st November 2023 | | | | | |

AUDIT TERMS OF REFERENCE

HMO Licensing 2023/24

1. INTRODUCTION & BACKGROUND

- 1.1 A House in Multiple Occupation (HMO) is a residential property rented by 3 or more individuals who are not from the same “household” (e.g. a family or couple). HMOs are popular with young people and students, and large numbers can be found in university areas, and major urban areas. HMOs are particularly common in Greater London, which is home to around 30% of all HMOs in England.
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- 1.5 In addition to issuing HMO Licences, the Council also has a responsibility to identify HMOs operating unlawfully within the Borough. Under the Housing Act 2004, it is an offence to operate a licensable HMO without a valid licence.
- 1.6 This audit is part of the agreed Internal Audit Plan for 2023/24.

2. AUDIT OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.

2.2 The audit will focus on each controls / process being considered:

- Walkthrough the processes to consider the key controls.
- Conduct sample testing of the identified key controls, and
- Report on these accordingly.

3. SCOPE

3.1 The audit included the following areas (and a number of issues identified):





| Audit Area | Identified Issues` | | |
|--|--------------------|---------------------|------------------|
| | Priority 1 (High) | Priority 2 (Medium) | Priority 3 (Low) |
| Regulatory, Organisational and Management Requirements | 0 | 0 | 0 |
| Public Information & Application Process | 0 | 0 | 0 |
| Inspection and Site Visits | 1 | 1 | 0 |
| Safety Certificates (including Gas and Electric) | 1 | 0 | 0 |
| Decisions | 0 | 0 | 0 |
| Appeals | 0 | 0 | 0 |
| Totals | 2 | 1 | 0 |

3.2 The scope of this audit has not assessed the reasonable and appropriateness of tenants service charges or reviewed that the service charges align to the terms of tenancy agreements. The focus of the audit was the operation of the calculating and applying annual increases to tenant service charges.

Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

| | | |
|---|-----------------------|--|
|  | Full Assurance | There is a sound system of control designed to achieve the system objectives and the controls are constantly applied. |
|  | Substantial Assurance | While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk. |
|  | Limited Assurance | There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk. |
|  | No Assurance | Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse, and reputational damage. |

Priorities assigned to identified issues are based on the following criteria:

| | |
|--------------------------------|---|
| Priority 1 (High) | Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk. |
| Priority 2 (Medium) | Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period. |
| Priority 3 (Low) | Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area. |

Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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